12. Reasonableness Tests - Education/Physician Coverage

A. The reasonableness of all physician compensation will be tested in the following SHARE cost centers:

1. Physician Coverage
2. Residents
3. Education and Research

B. This test will involve calculating the average 1981 actual compensation per physician in each cost center, and ranking with categories as defined in Section 13. Costs will be deemed presumptively reasonable to the extent that they do not exceed one-hundred and ten percent (110%) of category median value.

13. Peer Groupings Used

A. Four groupings will be used for analysis and comparison of functional costs. These are:

1. Category based on spectrum of services provided

a. rehabilitation hospitals
b. special function hospitals

2. Catchment area character

a. inner city
b. urban
c. suburban
d. rural

3. Labor Equalization Areas

4. Statewide (includes only specialized and rehabilitation hospitals not covered under N.J.A.C. 8:31B-1 et seq.

B. Factors considered in grouping hospitals for analysis of patient care costs include:

1. Inpatient services licensed in the "New Jersey State Plan for Hospital and Related Health Care Services," such as:

a. specialized acute services, for example:

-rehabilitation
-self-care
-long-term care
-orthopedic

2. Statewide special health care services provided, such as:

a. renal dialysis
b. cardiac catheterization
c. organ transplants
d. burn center
e. organ bank

C. Applying these factors, with respect to the base year data, New Jersey hospitals have been grouped as follows:

1. Specialized hospitals, separated between:

a. rehabilitation centers
b. other specialized facilities such as: orthopedic hospitals, neurological rehabilitation center, specialized surgery centers, and so forth.

D. The determination of the characteristics of a hospital's catchment area will be based on population information published in New Jersey 1980 Census Counts of Population by Race and Spanish Origin, by the State of New Jersey Department of Labor and Industry, area information published in New Jersey County and Municipal Work Sheets - PT 1, January, 1976, by the Department of Community Affairs, Division of State and Regional Planning, and economic characteristics published in the latest official United States Census. For purposes of classifying New Jersey's hospitals by catchment area characteristics, the following criteria are used:

Should the hospital desire to bring witnesses to the appeal to substantiate the written document already provided, the hospital must notify the other parties involved of the name of the witness, the item or items which will be the subject of the witness' testimony. This notification must be made at least thirty (30) days prior to the appeal.

D. After the hearing officer has filed his report, the Commissioner of Health will determine and approve the Final Administrative Rates and the hospital and its payors will be notified in the form of an administrative order over the signature of the Commissioner of Health.

15. Retroactive Adjustments

A. Since the Global Rate or the Alternate Rate will establish costs which are reasonable for establishing 1983 Reimbursement Rates, the Final Payment Rate will be adjusted for the following items only:

1. Volume variances.
2. Actual economic factor.
3. Statutory adjustment, if any.
4. Items excluded from the economic factors as listed in Section 10 of these Guidelines.
5. Audited Blue Cross add-ons.

B. The adjustments will apply separately to Physician Costs. Under-/over expenditures in Physician Costs cannot be used to offset over/under expenditures in other expenses.

16. Unpredictable and Uncontrollable Costs

Should a hospital be faced during the year with unpredictable and uncontrollable changes in its costs, the hospital should notify the Commissioner of Health who will consider the necessity for an adjustment to give relief from such occurrences. This notification must be in writing and received by the Commissioner within thirty (30) days of the occurrence.

17. Time-Phased Plans (1983)

This provision establishes the procedure to develop a plan by which the hospital eliminates unreasonable costs. The plan will phase out those costs deemed unreasonable based on the SHARE comparisons with peer hospitals (based-period challenges). The hospital had the opportunity to appeal these challenges of unreasonable costs at the detailed review with the Analyst. If the hospital did not justify the reasonableness of these base-period costs (which are based on the 1981 actual spending), there exists two alternatives. The first alternative is that the hospital recognizes the costs are unreasonable and submits a plan of action designed to eliminate them. The second alternative is that the hospital pursues an appeal to the Hearing Officer and does not submit a plan to reduce unreasonable expenditures.

1. Inner City - If a hospital is located in a city of more than 50,000 population (or in a city of more than 10,000 population that is in a county whose population density is more than 2,500 per square mile) and that city has more than 10 percent of families with income less than the poverty level, that hospital shall be categorized as an "inner city" hospital unless the hospital is located in a neighborhood that is atypical of the city or services a patient mix that is atypical of the city (e.g., less than twelve percent (12%) of patient days are Medicaid patients).

2. Urban - Hospitals that are located in cities of more than 25,000 population that have high population density.

3. Suburban - Hospitals that are located in cities or towns of more than 10,000 population that are characterized by factors such as high percentage of single-family owner-occupied housing and medium population density.

4. Rural - If a hospital is located in a place of less than 25,000 population in a county whose population density is less than 250 per square mile.

14. Appeals Concerning the Determination of Costs

A. Appeals may be taken by hospitals, their payors and the Division of Rate Counsel, Department of the Public Advocate (Under N.J.S.A. 52:27 E-18) subsequent to the determination of the Administrative Payment Rate. Such appeals may only be taken if the Administrative Payment Rate resulted from a review with the Analyst or resulted from proceedings in accordance with Section 4, B.1., above (page 5).

B. The request for an appeal must be filed with Health Economics Services, Department of the Public Advocate (Under N.J.S.A. 52:27 E-18) within thirty (30) days following receipt of notification of the Administrative Payment Rate (established in the manner indicated above). Hospitals shall be notified of the date of their appeal within thirty (30) days following receipt of the request for an appeal.

C. Within thirty (30) days subsequent to the request for an appeal before the hearing examiner, the hospital shall furnish to the Department of Health and the Public Advocate a list of all items to be appealed and the costs associated with those items.

As provided in Section 4.C. (above), no documentation other than that provided to the Analyst in connection with the detailed review can be presented to the hearing officer unless the party can establish just cause for failure to provide the documentation earlier. Should any of the parties desire to present any such evidence, it must be sent to the other parties at least thirty (30) days prior to the appeal.

This regulation sets forth the manner in which each alternative is handled. The expenditures that are to be eliminated are those which are actually being incurred by the hospital. Thus, it does not apply to cost increases over the base year. Such costs should not be incurred by the hospital without the approval of the Department. This section applies only to new base-period challenges (eligible base-period challenges) in 1983 for which the hospital did not receive a time-phase adjustment in any prior year's approved rate. If the hospital received a time-phase adjustment for a cost center in a previous year, then the hospital had the opportunity to reduce the unreasonable costs and may not receive additional monies in 1983 to phase out the same costs for a second time.

Any overspending of the 1981 budget (minimum base-period challenge) relates either to unanticipated and uncontrollable costs or to expenditures not approved by the Department. There exist two means of including unanticipated and uncontrollable costs to a hospital's budget. The first is Section 17 of the 1981 Guidelines which allows a hospital to petition the Commissioner for relief from such expenditures. The second is a request in the 1981 actual submission to include legally mandated and Certificate of Need related expenditures in the 1981 approved budget base (K Form adjustment). Over-expenditures in 1981 which are incurred by the hospital without the approval of the Department cannot be appealed in 1983. These expenditures were determined to be unreasonable in 1981 and the hospital had the opportunity to appeal these challenges at the detailed analyst review and the hearing officer appeal. These expenditures may be requested as new management requests at the 1983 analyst review.

Where the above defined actual expenditures are to be reduced, the following procedures shall apply:

A. All 1983 expenditures that are considered eligible for a time-phase adjustment, per the aforementioned definitions, may be allowed in the 1983 approved costs. All expenditures incurred prior to the receipt of the Administrative Payment Rate (APR) will be allowed in the 1983 approved costs.

   The hospital will receive this adjustment either in the revised APR or the Final Administrative Rate (FAR).

   For example: A hospital incurs a base period challenge in a cost center in 1983 for which it did not receive a time-phase adjustment in a prior year. If the base period challenge is $100,000 and the hospital recieves the APR on June 30, 1983 the time-phase adjustment (per this section) will include 50 percent (50%) of the challenged dollars because six months of the year have elapsed. If the same hospital received its APR on August 1, 1983 the time-phase adjustment would include fifty eight percent (58%) of the challenge dollars because seven months of the year elapsed.

   For hospitals that submit a plan of action, these costs will be allowed in a revised APR in addition to all other expenditures approved through a time-phase plan.

If the hospital does not submit a plan or does not appeal to the Hearing Officer, then the time-phase adjustment, as described in the example, must include only the expenditures incurred up to the date of the APR. This will be considered its time-phase plan and the approved costs will be included in the hospital's FAR.

B. Following receipt of the Administrative Payment Rate, with respect to eligible base period challenges which the hospital does not intend to appeal to the Hearing Officer, the hospital shall submit a detailed plan leading to the elimination of the challenged expenditure within a reasonable period of time. Such plans shall set forth in detail the costs necessarily incurred in eliminating the challenged expenditure within the time period set forth.

C. The Hospital Submits a Plan

1. The hospital may submit a time-phase plan for any eligible base-period challenge which was discussed with the Analyst at the detailed review. Where a plan is submitted, the following procedures shall apply:

   a. Notice that the hospital will submit a plan to phase out a base period challenge shall be made to the Analyst no later than ten (10) working days following receipt of the Administrative Payment Rate.

   b. The submission of such a plan by a hospital shall indicate that the hospital does not wish to contest the challenge to a Hearing Officer Appeal. The hospital shall submit the plan within twenty (20) working days following receipt of the Administrative Payment Rate.

   c. Health Economics Services (HES) will make a written recommendation to this plan no later than fifteen (15) working days following the receipt of the plan. The hospital shall receive a copy of the recommendation.

   d. If the hospital accepts the recommendation of Health Economics Services, the Hospital shall notify the Department within ten (10) working days of the receipt of the recommendation. The recommended plan shall be made a part of the hospital's rate file, appropriate adjustments shall be made to the Administrative Payment Rate and all such expenditures shall be removed from the base for all succeeding years.

   e. If the hospital fails to implement the approved plan, the Department shall treat these expenditures in succeeding years as if the plan had been implemented.

   f. If the hospital does not accept the recommendation of Health Economics Sevices, the hospital may appeal this decision and shall proceed as under Section C.2. below. The hospital must notify the Department

within ten (10) working days of the receipt of the recommendation that the hospital intends to appeal the decision of the Department to the Hearing Officer. No adjustment will be made to the Administrative Payment Rate under these circumstances. Hospitals shall be notified of the date of their appeal within thirty (30) days following the receipt of the request for this appeal. Where possible, this appeal will be heard in conjunction with any other appeals scheduled for that hospital under Section G-14: Appeals.

2. When an institution appeals the time-phased plan to the Hearing Officer (Section C.1.f. above), the following procedure shall apply:

   a. The Hearing Officer shall make a recommendation as to which time-phased plan should be approved (i.e., either the hospital's plan as proposed under Section C.1.b. above or the recommendation of Health Economics Services as proposed under Section C.1.c. above). The approved plan shall be made part of the hospital's rate file, appropriate adjustment shall be made to the payment rate (APR/FAR) and all such expenditures shall be removed from the base for all succeeding years.

D. The Hospital Does Not Submit a Plan

1. Where a hospital does not submit a time-phased plan for an eligible base period challenge, the following procedures shall apply:

   a. When the Hearing Officer recommends that a base period challenge be included in the hospital's budget as reasonable cost, such cost shall be paid and allowed in the Final Administrative Rate (FAR) only upon the waiver by the hospital of all further appeals for that cost center.

   b. Where the Hearing Officer sustains the base period challenge, an adjustment shall be made in accordance with Section 17.A. above, and this adjustment will constitute an approved time-phased plan. The 1983 approved costs shall include costs actually incurred up to the date of the hearing, where such appeals involve colorable issues and are taken in good faith. Whenever the Hearing Officer shall determine that non-colorable issues have been pursued or the issues were not pursued in good faith, only those expenditures covered in Section 17.A. above shall be included in the 1983 approved costs. This adjustment shall be made to the Final Administrative Rate and all such expenditures shall be removed from the base for all succeeding years.

c. If the hospital fails to implement the approved plan, the Department shall treat these expenditures in succeeding years as if the plan has been implemented.

E. For hospitals receiving a time-phased adjustment (Sections B, C, and D above), the following provisions shall apply in all future years:

1. Where a hospital has been granted an adjustment for the purpose of reducing unreasonable costs (base period challenges) in any cost center in 1983 no similar adjustment shall be made in 1984. The hospital may appeal a situation in which the reasonableness screen is lower in 1984 than it was in 1983.

2. The hospital may request legal or management changes in any cost center. The hospital has the right to a hearing with respect to the denial of any legal or management request.

3. In the department of 1983 rates, there shall be no adjustment through a time-phased plan of the overspending of the 1982 approved budget. The hospital had the opportunity to appeal its 1982 approved budget at the Detailed Analyst Review and in Appeal before a Hearing Officer. All reasonable costs were included in the hospital's approved budget. The hospital can appeal prior year overspending as it relates to Section 15, Retroactive Adjustments. Additionally, Section 16, unpredictable and uncontrollable costs, allows the hospital to petition the Commissioner for relief of unpredictable changes in its cost.

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EXHIBIT I

Cost Center Record

Function	Cost Center (Abbr.)	Level	Peer Group	Units of Services	Cost Increase Analysis: Reasonableness Limit	Variability Personnel	Factor Supplies
Physician	PHY	II	Statewide	Fee & Sal. Hrs.	1.1	0	0
	RSD	II	Statewide	Fee & Sal. Hrs.	1.1	0	0
General Services	A&G	I	Category	Patient Days	1.1	0	0
	DTY	I	Statewide	Patient Days**	1.1	50	100
	FIS	I	Category	Admission	1.1	50	100
	HKP	I	Statewide	Sq. Ft.*	1.1	0	0
	MAL	III	Category	Patient Days	---	0	0
	MRD	I	Category	Admissions	1.1	50	50
	PCC	II	Category	Admissions	1.1	0	0
	PLT	I	Character	Sq. Ft.*	1.1	0	0
	UTC	III	Statewide	Sq. Ft.*	---	0	0
	OGS	II	Character	Patient Days	1.3	0	0
	L&L	I	Statewide	Patient Days	1.1	50	50
Other	EDR	III	Category	- - - - -	---	0	0
Fringe Benefits	LFB	-	Statewide	Hours	---	--	---
	PFB	-	Statewide	Hours	---	--	---
	PEN	-	Statewide	Hours	---	--	---
	INT	III	Statewide	Patient Days	---	--	---
	DEP	III	Statewide	Patient Days	---	--	---

* Inpatient % for this cost center
** Excluding "In & Out" same day

EXHIBIT I

Abbreviation	Cost Center Description
ACU	Acute Care Unit
ICU	Intensive Care Unit
NBN	Newborn Nursery
SAC	Sub-Acute Care
EMR	Emergency Room
ANS	Anesthesia
CSS	Central and Sterile Supply
DEL	Delivery
DIA	Dialysis
EDG	Electrodiagnosis
LAB	Laboratory
ORR	Operating and Recovery Rooms
PHM	Pharmacy
PHT	Physical Therapy
RAD	Radiology
RSP	Respiratory Therapy
CCA	Cardiac Catheterization
BBK	Blood Bank
OPM	Other Physical Medicine
PHY	Physician
RSD	Resident
A&G	Administrative and General
DTY	Dietary
FIS	Fiscal
HKP	Housekeeping
MAL	Malpractice
MRD	Medical Records
PCC	Patient Care Coordination
PLT	Plant
UTC	Utilities
OGS	Other General Services
L&L	Laundry & Linen
EDR	Education
LFB	Legal Fringe Benefits
PFB	Policy Fringe Benefits
PEN	Pension
INT	Interest
DEP	Depreciation